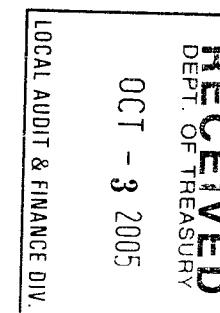


Village of Farwell
Clare County, Michigan
Annual Financial Statements
and
Auditors' Report
February 28, 2005



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Farwell	County Clare
Audit Date 2/28/05	Opinion Date 5/20/05	Date Accountant Report Submitted to State: 9/20/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

Yeo & Yeo, CPAs & Business Consultants

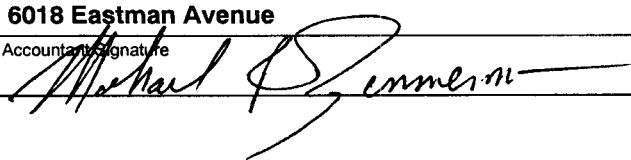
Street Address 6018 Eastman Avenue	City Midland	State MI	ZIP 48640
Accountant's Signature 			Date 9.22.05

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Village of Farwell
List of Elected and Appointed Officials
February 28, 2005

VILLAGE OFFICIALS

President

Steven Grim

Village Council

Dallas Agle

Allen Brewer

Gary Maki

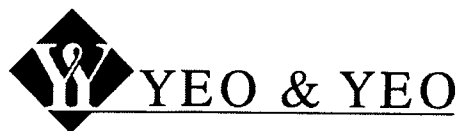
Elton Marshall

Vicki Gunden

Delores Knepper

Clerk/ Treasurer

Sharon Crabtree



6018 Eastman Avenue
Midland, MI 48640
Phone (989) 631-6060 / (800) 701-3574
Fax (989) 631-4288

Independent Auditors' Report

To the Village Council
Village of Farwell
Farwell, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of Village of Farwell as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of Village of Farwell as of February 28, 2005 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village Council has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2003.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Farwell's the basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

May 20, 2005
Midland, Michigan

Village of Farwell
Management's Discussion and Analysis
Year Ended February 28, 2005

Village of Farwell (the "Village"), Michigan is in its first year of implementation of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Village's management's discussion and analysis of the financial results for the fiscal year ended February 28, 2005.

This is the first financial report presented in the format required by the Governmental Accounting Standards Board (GASB) in their Statement Number 34 issued in June of 2000. Certain comparative information, ordinarily required, is not available the first year that the financial statements are prepared according to GASB 34 guidelines. Subsequent reports will include a prior year comparison of results.

Overview of Financial Statements

The annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the required supplementary information and other supplemental information. Generally Accepted Accounting Principles (GAAP) according to GASB 34 now requires the reporting of two types of financial statements: Government-wide Financial Statements and Fund Financial Statements.

Government-wide Financial Statements:

The Government-wide statements are new and provide a perspective of the Village as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two Government-wide statements: The Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets (page 4-1) combines and consolidates the governmental fund current financial resources (short-term spendable resources) with capital assets, regardless of whether they are currently available or not.

Consistent with the full accrual basis method of accounting, the Statement of Activities (page 4-2) accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various village services.

When analyzed together, the two statements help the reader determine whether the Village is financially stronger or weaker as a result of the year's activities.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Village can be divided into two categories: governmental funds and proprietary funds.

Village of Farwell
Management's Discussion and Analysis
Year Ended February 28, 2005

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year (fund balance).

Because the focus of governmental funds is narrower than that of the Government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Village's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

The Village maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major street and local street funds, each of which are considered to be a major fund.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary Funds

The Village business-type activity consists of Water Fund and Sewer Fund. The Village provides treated water to the Village residents. The Village has revenue bond debt for water system wide improvements, which matures in 2019. The Village also provides municipal sanitary sewer to its residents. In 2005/2006 the Village will be constructing a new waste water treatment facility. The construction will be financed by USDA grant, revenue bonds and the Sewer Fund.

In 2005, the Village increased the water and sewer rates, the first time in twenty years. The increased sewer rates will help to pay for the new waste water treatment facility.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the Village's major funds and other supplemental information concerning indebtedness information.

Village of Farwell
Management's Discussion and Analysis
Year Ended February 28, 2005

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended February 28, 2005.

Total net assets related to the Village's governmental activities are \$1,281,920. The unrestricted portion of net assets is \$837,079.

Tax revenues, the Village's largest revenue source, increased by \$24,290 from 2004. This is mainly attributed to an increase in property taxable values. State shared revenues, our second largest revenue source, increased by about \$11,226 from the State of Michigan this year.

The Village of Farwell as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Governmental Activities 2005	Business-type Activities 2005	Total 2005
Current assets			
Cash and cash equivalents	\$ 562,823	\$ 426,978	\$ 989,801
Receivables	18,943	26,111	45,054
Due from other units of government	44,382	-	44,382
Due from other funds	140,389	-	140,389
Due from component unit	85,512	-	85,512
Capital assets, net	<u>444,841</u>	<u>1,148,466</u>	<u>1,593,307</u>
Total assets	1,296,890	1,601,555	2,898,445
Liabilities			
Accounts payable	6,677	406	7,083
Accrued and other liabilities	8,293	4,622	12,915
Due to other funds	-	140,389	140,389
Noncurrent liabilities			
Due within one year	-	22,333	22,333
Due in more than one year	<u>-</u>	<u>260,000</u>	<u>260,000</u>
Total liabilities	<u>14,970</u>	<u>427,750</u>	<u>442,720</u>
Total net assets	<u>\$ 1,281,920</u>	<u>\$ 1,173,805</u>	<u>\$ 2,455,725</u>

Village of Farwell
Management's Discussion and Analysis
Year Ended February 28, 2005

Village of Farwell net assets of governmental activities are \$1,281,920 and \$1,173,805 for business type activities; of these amounts \$837,079 (governmental) and \$260,340 (business-type) are unrestricted assets.

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue			
Charges for services	\$ 43,266	\$ 154,786	\$ 198,052
General revenue:			
Property taxes	196,247	-	196,247
State-shared revenue	183,458	-	183,458
Interest	12,227	16,299	28,526
Other revenue	212	5,736	5,948
Total revenue	435,410	176,821	612,231
Program expenses			
General government	80,029	-	80,029
Public safety	20,702	-	20,702
Public works	252,902	-	252,902
Community and economic development	7,326	-	7,326
Recreation and culture	15,203	-	15,203
Interest on long-term debt	487	-	487
Water and sewer	-	228,203	228,203
Total program expenses	376,649	228,203	604,852
Change in net assets before transfers	58,761	(51,382)	7,379
Transfers	(9,040)	9,040	-
Change in net assets	\$ 49,721	\$ (42,342)	\$ 7,379

**Village of Farwell
Management's Discussion and Analysis
Year Ended February 28, 2005**

Governmental Activities

The Village of Farwell total governmental activity revenues were \$435,410. There was a slight increase in State-shared revenue and property taxes.

Governmental activity expenditures of \$379,584 were recorded for the year. This represents a decrease from prior year of approximately \$11,000. The Village closely monitored its spending in all areas, including a freeze on capital projects and capital purchases.

Business Type Activities

The Village of Farwell total business-type activity revenues were \$176,821. This represents a decrease from prior year of approximately \$3,100, which is mainly attributed to decrease in interest income during.

Business-type activity expenditures of \$228,203 were recorded for the year. This amount is very consistent with prior year expenditures.

Village of Farwell Funds

The fund financial statements provide detailed information about the most significant funds, not the Village of Farwell as a whole. The Village Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51, Major and Local Street funds for 2005. The Farwell Village governmental major funds include General Fund, Major and Local Street Funds.

a) General Fund

Functions relating to the general governmental activities of the Village, which are financed by property tax levies, by distribution of State revenues from fees charged for various municipal activities and services are recorded in the General Fund. This fund had an increased fund balance of \$39,052 over 2004.

b) Major and Local Street Funds

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the local street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The Village uses these fund improvements for the Village street system, along with contributions from General Fund. Major Street Fund balance had a decrease of \$122,688 over 2004. This is mainly due to Superior Street improvement project done in 2004/2005. Local Street Fund balance had a decrease of \$16,671 over 2004.

**Village of Farwell
Management's Discussion and Analysis
Year Ended February 28, 2005**

General Fund Budgetary Highlights

The Village's budgets are prepared in accordance with Michigan Law. The most significant budgeted funds are the General Fund, Major Street Fund and Local Street Fund. The funds budgets were amended during the year. As additional information became known during the fiscal year, budget amendments were made to recognize the additional revenue and/or planned expenditures related to various Village programs.

Differences between the original and final amended budgets were relatively minor.

Capital Asset and Debt Administration

At the end of 2005 the Village of Farwell has \$1,593,307 invested in a wide range of capital assets, including land, buildings, equipment, computer equipment, and water and sewer lines. The Village has seen a decline in bond debt, due to pay off of several bond issues; Storm Drain Improvements and 1974 Water Revenue.

Debt reported in these financial statements is related to 1979 Water Revenue Bonds and water system improvements and is reported as a liability on the statement of net assets.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Village's budget for the 2005-2006 fiscal year:

- The State of Michigan has made significant cuts in their operating budgets due to a downturn in economy. For 2004-2005, the Village has received \$183,458 in state shared revenue, representing 42% of the revenue of the governmental funds. The amounts of the state shared revenues for future periods are uncertain and will affect the Village's budgets. Our budgets were prepared with these factors in mind and will need to be revised as needed.

Contacting the Village of Farwell Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village of Farwell finances and to show the Village's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Village Treasurer/Clerk office at Village of Farwell, Clare County, Michigan.

Village of Farwell
Statement of Net Assets
February 28, 2005

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	LDFA	Industrial Park
Assets					
Cash and cash equivalents	\$ 562,823	\$ 354,968	\$ 917,791	\$ 32,682	\$ -
Receivables					
Taxes	18,943	359	19,302	-	-
Customers	-	25,752	25,752	-	-
Due from other units of government	44,382	-	44,382	-	-
Internal balances	140,389	(140,389)	-	-	-
Due from component unit	85,512	-	85,512	-	-
Restricted assets					
Cash and cash equivalents	-	72,010	72,010	-	-
Capital assets, net	444,841	1,148,466	1,593,307	-	-
Total assets	1,296,890	1,461,166	2,758,056	32,682	-
Liabilities					
Accounts payable	6,677	406	7,083	-	-
Accrued and other liabilities	8,293	4,622	12,915	-	-
Accrued interest payable	-	2,333	2,333	-	-
Due to primary government	-	-	-	85,512	-
Noncurrent liabilities					
Due within one year	-	20,000	20,000	-	-
Due in more than one year	-	260,000	260,000	-	-
Total liabilities	14,970	287,361	302,331	85,512	-
Net Assets					
Invested in capital assets, net of related debt	444,841	868,466	1,313,307	-	-
Restricted for:					
Debt	-	45,000	45,000	-	-
Operation and maintenance	-	19,510	19,510	-	-
Replacement reserve	-	7,500	7,500	-	-
Unrestricted	837,079	233,329	1,070,408	(52,830)	-
Total net assets	\$ 1,281,920	\$ 1,173,805	\$ 2,455,725	\$ (52,830)	\$ -

See Accompanying Notes to Financial Statements

Village of Farwell
Statement of Activities
For the Year Ended February 28, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	LDFA	Industrial Park
Primary government									
Governmental activities									
General government	\$ 80,029	\$ 43,266	\$ -	\$ -	\$ (36,763)	\$ -	\$ (36,763)	\$ -	\$ -
Public safety	20,702	-	-	-	(20,702)	-	(20,702)	-	-
Public works	252,902	-	-	-	(252,902)	-	(252,902)	-	-
Community and economic development	7,326	-	-	-	(7,326)	-	(7,326)	-	-
Recreation and culture	15,203	-	-	-	(15,203)	-	(15,203)	-	-
Interest on long-term debt	487	-	-	-	(487)	-	(487)	-	-
Total governmental activities	376,649	43,266	-	-	(333,383)	-	(333,383)	-	-
Business-type activities									
Sewer	99,572	49,199	-	-	-	(50,373)	(50,373)	-	-
Water	128,631	105,587	-	-	-	(23,044)	(23,044)	-	-
Total business-type activities	228,203	154,786	-	-	-	(73,417)	(73,417)	-	-
Total primary government	\$ 604,852	\$ 198,052	\$ -	\$ -	(333,383)	(73,417)	(406,800)	-	-
Component unit									
Local Development Finance Authority	\$ 3,206	\$ -	\$ -	\$ -	-	-	-	(3,206)	-
Industrial Park	-	-	-	-	-	-	-	-	-
Total component units	\$ 3,206	\$ -	\$ -	\$ -	-	-	-	(3,206)	-
General revenues									
Property taxes					196,247	-	196,247	6,793	-
State shared revenue					183,458	-	183,458	-	-
Unrestricted investment earnings					12,227	16,299	28,526	-	-
Sale of property					-	-	-	30,406	-
Miscellaneous					212	5,736	5,948	-	-
Transfers					(9,040)	9,040	-	(52,857)	52,857
Total general revenues and transfers					383,104	31,075	414,179	(15,658)	52,857
Change in net assets					49,721	(42,342)	7,379	(18,864)	52,857
Net assets - beginning of year					1,232,199	1,216,147	2,448,346	(33,966)	(52,857)
Net assets - end of year					\$ 1,281,920	\$ 1,173,805	\$ 2,455,725	\$ (52,830)	\$ -

See Accompanying Notes to Financial Statements

**Village of Farwell
Governmental Funds
Balance Sheet
February 28, 2005**

	<u>Special Revenue Funds</u>			<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	
Assets				
Cash and cash equivalents	\$ 335,151	\$ 189,409	\$ 38,263	\$ 562,823
Receivables				
Taxes	15,675	1,634	1,634	18,943
Due from other units of government	26,278	13,879	4,225	44,382
Due from other funds	140,389	-	-	140,389
Due from component unit	85,512	-	-	85,512
Total assets	<u>\$ 603,005</u>	<u>\$ 204,922</u>	<u>\$ 44,122</u>	<u>\$ 852,049</u>
Liabilities				
Accounts payable	\$ 6,246	\$ 211	\$ 220	\$ 6,677
Accrued and other liabilities	6,402	1,012	879	8,293
Total liabilities	<u>12,648</u>	<u>1,223</u>	<u>1,099</u>	<u>14,970</u>
Fund Balances				
Unreserved				
Designated for:				
Future unemployment claims	19,927	-	-	19,927
Equipment purchases	45,849	-	-	45,849
Village lighting	22,924	-	-	22,924
Village office	10,462	-	-	10,462
Unreserved, reported in:				
General fund	491,195	-	-	491,195
Special revenue funds	-	203,699	43,023	246,722
Total fund balances	<u>590,357</u>	<u>203,699</u>	<u>43,023</u>	<u>837,079</u>
Total liabilities and fund balances	<u>\$ 603,005</u>	<u>\$ 204,922</u>	<u>\$ 44,122</u>	<u>\$ 852,049</u>

See Accompanying Notes to Financial Statements

**Village of Farwell
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
February 28, 2005**

Total fund balances for governmental funds	\$ 837,079
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>444,841</u>
Net assets of governmental activities	<u><u>\$ 1,281,920</u></u>

Village of Farwell
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended February 28, 2005

	Special Revenue Funds			Governmental Funds Total
	General	Major Street	Local Street	
Revenues				
Taxes				
Licenses and permits	\$ 162,259	\$ 16,994	\$ 16,994	\$ 196,247
State revenue sharing	260	-	-	260
Interest income	83,828	78,347	21,283	183,458
Rental income	6,769	4,143	1,315	12,227
Other revenue	43,006	-	-	43,006
	212	-	-	212
Total revenues	<u>296,334</u>	<u>99,484</u>	<u>39,592</u>	<u>435,410</u>
Expenditures				
Current				
General government				
Public safety	71,685	-	-	71,685
Public works	20,702	-	-	20,702
Community and economic development	115,398	56,915	47,018	219,331
Recreation and culture	7,326	-	-	7,326
Other functions	12,705	-	-	12,705
Capital outlay	7,069	-	-	7,069
Debt service	10,351	157,014	-	167,365
Principal retirement				
Interest and fiscal charges	2,935	8,047	9,025	20,007
	71	196	220	487
Total expenditures	<u>248,242</u>	<u>222,172</u>	<u>56,263</u>	<u>526,677</u>
Excess (deficiency) of revenues over expenditures	<u>48,092</u>	<u>(122,688)</u>	<u>(16,671)</u>	<u>(91,267)</u>

See Accompanying Notes to Financial Statements

Village of Farwell
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended February 28, 2005

	<u>Special Revenue Funds</u>			<u>Governmental Funds Total</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	
Other financing uses				
Transfers out	(9,040)	-	-	(9,040)
Net change in fund balance	39,052	(122,688)	(16,671)	(100,307)
Fund balance - beginning of year	551,305	326,387	59,694	937,386
Fund balance - end of year	<u>\$ 590,357</u>	<u>\$ 203,699</u>	<u>\$ 43,023</u>	<u>\$ 837,079</u>

See Accompanying Notes to Financial Statements

Village of Farwell
Governmental Funds
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended February 28, 2005

Net change in fund balances - Total governmental funds	\$ (100,307)
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Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(37,344)
Capital outlay	167,365

Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in
fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not
affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds
but reduces the liability in the statement of net assets.

Repayments of long-term debt	<u>20,007</u>
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Change in net assets of governmental activities	\$ <u>49,721</u>
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**Village of Farwell
Proprietary Funds
Statement of Net Assets
February 28, 2005**

	Enterprise Funds		
	Sewer	Water	Total
Assets			
Current assets			
Cash and cash equivalents	\$ -	\$ 354,968	\$ 354,968
Receivables			
Taxes	-	359	359
Customers	14,130	11,622	25,752
Total current assets	14,130	366,949	381,079
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	-	72,010	72,010
Capital assets, net	547,969	600,497	1,148,466
Total noncurrent assets	547,969	672,507	1,220,476
Total assets	562,099	1,039,456	1,601,555

See Accompanying Notes to Financial Statements

**Village of Farwell
Proprietary Funds
Statement of Net Assets
February 28, 2005**

	Enterprise Funds		
	Sewer	Water	Total
Liabilities			
Current liabilities			
Accounts payable	406	-	406
Accrued and other liabilities	2,453	2,169	4,622
Due to other funds	140,389	-	140,389
Due to component unit	-	-	-
Current portion of noncurrent liabilities	-	20,000	20,000
Total current liabilities	143,248	22,169	165,417
Noncurrent liabilities			
Current liabilities payable from restricted assets			
Revenue bonds payable	-	260,000	260,000
Accrued interest payable	-	2,333	2,333
Total noncurrent liabilities	-	262,333	262,333
Total liabilities	143,248	284,502	427,750
Net Assets			
Invested in capital assets, net of related debt	547,969	320,497	868,466
Restricted for:			
Debt	-	45,000	45,000
Operation and maintenance	-	19,510	19,510
Replacement reserve	-	7,500	7,500
Unrestricted	(129,118)	362,447	233,329
Total net assets	\$ 418,851	\$ 754,954	\$ 1,173,805

See Accompanying Notes to Financial Statements

Village of Farwell
Proprietary Funds
Statement of Revenue, Expenses and Changes in Fund Net Assets
For the Year Ended February 28, 2005

	Enterprise Funds		
	Sewer	Water	Total
Operating revenue			
Customer fees	\$ 46,394	\$ 104,598	\$ 150,992
Connection fees	2,805	989	3,794
Rental income	-	4,200	4,200
Other revenue	1,536	-	1,536
Total operating revenue	50,735	109,787	160,522
Operating expenses			
Personnel services	23,954	29,016	52,970
Supplies	918	3,444	4,362
Contractual services	-	700	700
Utilities	4,998	18,586	23,584
Repairs and maintenance	17,249	7,637	24,886
Other expenses	19,008	18,655	37,663
Depreciation	33,445	35,760	69,205
Total operating expenses	99,572	113,798	213,370
Operating loss	(48,837)	(4,011)	(52,848)

See Accompanying Notes to Financial Statements

Village of Farwell
Proprietary Funds
Statement of Revenue, Expenses and Changes in Fund Net Assets
For the Year Ended February 28, 2005

	Enterprise Funds		
	Sewer	Water	Total
Nonoperating revenue (expenses)			
Interest income	9,121	7,178	16,299
Interest expense	-	(14,833)	(14,833)
Total nonoperating revenue (expenses)	9,121	(7,655)	1,466
Loss before contributions and transfers	(39,716)	(11,666)	(51,382)
Transfers in	-	9,040	9,040
Change in net assets	(39,716)	(2,626)	(42,342)
Net assets - beginning of year	458,567	757,580	1,216,147
Net assets - end of year	<u>\$ 418,851</u>	<u>\$ 754,954</u>	<u>\$ 1,173,805</u>

See Accompanying Notes to Financial Statements

**Village of Farwell
Proprietary Funds
Statement of Cash Flows
For the Year Ended February 28, 2005**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers	\$ 40,204	\$ 110,825	\$ 151,029
Receipts from other funds	214	13,512	13,726
Payments to other funds	(151,540)	-	(151,540)
Payments to suppliers	(41,791)	(49,251)	(91,042)
Payments to employees	(23,954)	(29,016)	(52,970)
Net cash provided (used) by operating activities	<u>(176,867)</u>	<u>46,070</u>	<u>(130,797)</u>
Cash flows from noncapital financing activities			
Transfer from other funds	-	9,040	9,040
Cash flows from capital and related financing activities			
Purchases/construction of capital assets	(138,884)	-	(138,884)
Principal and interest paid on long-term debt	-	(35,000)	(35,000)
Net cash used by capital and related financing activities	<u>(138,884)</u>	<u>(35,000)</u>	<u>(173,884)</u>
Cash flows from investing activities			
Interest received	9,121	7,178	16,299
Net cash provided by investing activities	<u>9,121</u>	<u>7,178</u>	<u>16,299</u>
Net increase (decrease) in cash and cash equivalents	(306,630)	27,288	(279,342)
Cash and cash equivalents - beginning of year	306,630	399,690	706,320
Cash and cash equivalents - end of year	<u>\$ -</u>	<u>\$ 426,978</u>	<u>\$ 426,978</u>

See Accompanying Notes to Financial Statements

**Village of Farwell
Proprietary Funds
Statement of Cash Flows
For the Year Ended February 28, 2005**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided (used) by operating activities			
Operating income (loss)	\$ (48,837)	\$ (4,011)	\$ (52,848)
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization expense	33,445	35,760	69,205
Changes in assets and liabilities			
Receivables (net)	(10,531)	1,038	(9,493)
Due from other funds	214	13,512	13,726
Accounts payable	168	(391)	(223)
Accrued and other liabilities	214	162	376
Due to other funds	<u>(151,540)</u>	<u>-</u>	<u>(151,540)</u>
Net cash provided (used) by operating activities	<u>\$ (176,867)</u>	<u>\$ 46,070</u>	<u>\$ (130,797)</u>

Village of Farwell
Notes to Financial Statements
February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Village of Farwell is governed by an elected seven-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented Component Units – The component units' columns in the entity wide financial statements include the financial data of the Local Development Finance Authority (LDFA) and the Industrial Park. These units are reported in a separate column to emphasize that they are legally separate from the Village. The LDFA and the Industrial Park serve all the citizens of the government and are governed by a board comprised of the Village's elected Council. The LDFA and the Industrial Park do not issue any other form of financial statements except as contained in the Village of Farwell annual financial statements.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially

accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to

Village of Farwell
Notes to Financial Statements
February 28, 2005

be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major and Local Street Funds account for the resources of state gas and weight tax revenue that are restricted for use on Major and Local Streets.

The government reports the following major proprietary funds:

The Water Fund and the Sewer Fund account for the activities of the water distribution system and sewage collection system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance

for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from *nonoperating* items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds, relate to charges to customers for water sales and services and sewage disposal. The Water and Sewer Fund also recognizes tap fees intended to recover current costs (i.e., labor and materials to hook up new customers) as operating revenue. Connection fees intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of water, sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Village of Farwell
Notes to Financial Statements
February 28, 2005

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on property values assessed as of the same date. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2004 taxable valuation of the government totaled \$16,562,405, on which ad valorem taxes consisted of 11.0841 mills for operating purposes. This resulted in \$183,572 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Restricted assets – Certain revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted investments.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. The amount reported for infrastructure only includes assets added beginning fiscal year ended February 28, 2005.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 5 years
Machinery and equipment	3 to 10 years
Infrastructure	15 to 40 years

Compensated absences – It is the Village's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. All liability for these amounts is reported in governmental funds only if they have matured, for example, as a

Village of Farwell
Notes to Financial Statements
February 28, 2005

results of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the Village's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The Village is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Village Clerk is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Village Council. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Deficit fund equity

The LDFA component unit of the Village is currently operating under a deficit fund balance. The deficit has been financed by advances from the General Fund. It is the intention of the Village to repay the General Fund as lots are sold in the Industrial Park.

Village of Farwell
Notes to Financial Statements
February 28, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91 authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The governing body has designated two banks for the deposit of local unit funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

	Cash and Cash Equivalents	Restricted Cash and Cash Equivalents
Governmental activities	\$ 562,823	\$ -
Business-type activities	<u>354,968</u>	<u>72,010</u>
Total primary government	917,791	72,010
Component unit	<u>32,682</u>	<u>-</u>
Total	<u>\$ 950,473</u>	<u>\$ 72,010</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank deposits (checking and savings accounts, certificates of deposit)	\$ 989,776	\$ 32,682
Petty cash and cash on hand	<u>25</u>	<u>-</u>
	<u>\$ 989,801</u>	<u>\$ 32,682</u>

Deposits

The bank balance was \$ 1,023,021 at year end. Of the bank balance, \$ 232,682 was covered by federal depository insurance and \$ 790,339 was uninsured and uncollateralized. Since the component unit participates in the government's common cash, the federal depository insurance is not specifically allocated to their balance.

Village of Farwell
Notes to Financial Statements
February 28, 2005

NOTE 4 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 57,000	\$ -	\$ -	\$ 57,000
Capital assets being depreciated				
Infrastructure	-	157,014	-	157,014
Buildings, additions and improvements	239,798	-	-	239,798
Machinery and equipment	142,219	10,351	-	152,570
Vehicles	212,902	-	-	212,902
Total capital assets being depreciated	594,919	167,365	-	762,284
Less accumulated depreciation for				
Infrastructure	-	1,309	-	1,309
Buildings, additions and improvements	111,122	6,975	-	118,097
Machinery and equipment	83,142	8,635	-	91,777
Vehicles	142,835	20,425	-	163,260
Total accumulated depreciation	337,099	37,344	-	374,443
Net capital assets being depreciated	257,820	130,021	-	387,841
Governmental activities capital assets, net	\$ 314,820	\$ 130,021	\$ -	\$ 444,841

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 155,844	\$ 8,000	\$ -	\$ 163,844
Construction in progress	-	130,883	-	130,883
Total capital assets not being depreciated	155,844	138,883	-	294,727
Capital assets being depreciated				
Buildings, additions and improvements	8,265	-	-	8,265
Machinery and equipment	51,429	-	-	51,429
Water system	1,361,812	-	-	1,361,812
Sewer system	1,270,408	-	-	1,270,408
Total capital assets being depreciated	2,691,914	-	-	2,691,914
Less accumulated depreciation for				
Buildings, additions and improvements	4,090	169	-	4,259
Machinery and equipment	39,479	1,685	-	41,164
Water system	743,730	35,591	-	779,321
Sewer system	981,671	31,760	-	1,013,431
Total accumulated depreciation	1,768,970	69,205	-	1,838,175
Net capital assets being depreciated	922,944	(69,205)	-	853,739
Business-type capital assets, net	\$ 1,078,788	\$ 69,678	\$ -	\$ 1,148,466

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$ 1,275
Public works	33,571
Recreation and culture	2,498
Total governmental activities	37,344
Business-type activities	
Sewer	33,445
Water	35,760
Total business-type activities	69,205
Total primary government	\$ 106,549

Village of Farwell
Notes to Financial Statements
February 28, 2005

Commitments

The Village will be constructing a new waste water treatment facility during next fiscal year. The construction will be financed by a grant from the United States Department of Agriculture, revenue bonds secured by sewer revenue and by sewer receipts. No construction has been started as of February 28, 2005.

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General	Water Fund	\$ <u>9,040</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

Due to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Sewer Fund	\$ <u>140,389</u>
		Reimbursement of expenditures paid by the General Fund

Due to/from primary government and component units

<u>Entity</u>	<u>Entity</u>	<u>Amount</u>
Primary government	Component unit	
General	LDFA	\$ <u>85,512</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Village of Farwell
Notes to Financial Statements
February 28, 2005

NOTE 6 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital projects. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Note payable									
Storm Drain Improvements	\$ 140,044	2005	5%	\$ 20,006	\$ 20,006	\$ -	\$ 20,006	\$ -	\$ -
Business-type activities									
Bonds payable									
General obligation bonds									
Water Revenue Bonds	\$ 540,000	1/1/2019	5%	\$ 20,000	\$ 300,000	\$ -	\$ 20,000	\$ 280,000	\$ 20,000

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending February 28,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ -	\$ -	\$ 20,000	\$ 14,000
2007	-	-	20,000	13,000
2008	-	-	20,000	12,000
2009	-	-	20,000	11,000
2010	-	-	20,000	10,000
2011-2015	-	-	100,000	35,000
2016-2020	-	-	80,000	10,000
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 280,000</u>	<u>\$ 105,000</u>

Village of Farwell
Notes to Financial Statements
February 28, 2005

NOTE 7 - NET ASSETS

The balances of the restricted assets accounts in the Enterprise Funds are as follows:

Water Fund - Bond and Interest Redemption Reserves

The Water Fund bond ordinances require a portion of the user fee to be set aside in a reserve sufficient to provide for the payment of one half of the next interest payment due and one half of the next principal payment due on the 1979 bonds. This reserve has accumulated in the amount of \$13,500.

Water Fund - Bond Reserve

The Water Fund bond ordinances require minimum reserves to be set aside to the extent the fund reaches \$31,500 to be used for bond and interest redemption. This reserve has accumulated in the amount of \$31,500.

Water Fund - Operation and Maintenance Reserves

The Water Fund bond ordinances require a portion of the user fee to be set aside in a reserve sufficient to provide for the payment of the next quarter's current expenses or administration and operation of the water system. This reserve has accumulated in the amount of \$19,510.

Water Fund - Replacement Reserves

The Water Fund bond ordinances require a portion of the user fee to be set aside in a reserve to the extent the fund reaches \$7,500 to be used solely for the purpose of making major repairs and replacements to the water system. This reserve has accumulated in the amount of \$7,500.

NOTE 8 - RISK MANAGEMENT

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 9 - EMPLOYEE RETIREMENT PLAN

The Village has a defined contribution pension plan that covers certain employees of the Village. The full-time employee is eligible to participate after 90 days of service. The Village contributed \$3,500 and \$3,500 per employee for the years ended February 28 2005 and February 29, 2004 respectively. The total pension expense amounted to \$14,046 and \$14,000 for the years ended February 28, 2005 and February 29, 2004 respectively.

NOTE 10 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Village of Farwell
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2005

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Taxes				
Property taxes	\$ 132,175	\$ 132,175	\$ 159,330	\$ 27,155
Penalties and interest	250	250	1,087	837
Administration fee	1,600	1,600	1,842	242
Licenses and permits	200	200	260	60
State revenue sharing	90,000	90,000	83,828	(6,172)
Interest income	7,000	7,000	6,769	(231)
Rental income	30,000	30,000	43,006	13,006
Other revenue	630	630	212	(418)
Total revenues	<u>261,855</u>	<u>261,855</u>	<u>296,334</u>	<u>34,479</u>
Expenditures				
General government				
Township board	22,830	25,130	10,814	(14,316)
Manager	6,995	6,995	7,501	506
Accounting	750	750	528	(222)
Clerk	35,440	39,440	38,535	(905)
Audit	5,000	5,000	4,594	(406)
Treasurer	600	3,100	3,302	202
Elections	1,300	1,300	545	(755)
Attorney	4,000	5,900	5,866	(34)
Total general government	<u>76,915</u>	<u>87,615</u>	<u>71,685</u>	<u>(15,930)</u>
Public safety				
Police	<u>24,000</u>	<u>24,000</u>	<u>20,702</u>	<u>(3,298)</u>

Village of Farwell
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public works				
Department of public works				
Street lighting	132,412	134,112	102,664	(31,448)
Total public works	20,200	20,200	12,734	(7,466)
	152,612	154,312	115,398	(38,914)
Community and economic development				
Zoning	-	7,400	7,326	(74)
Recreation and culture				
Parks and recreation	16,400	16,400	12,705	(3,695)
Other functions				
Insurance and bonds	6,300	7,100	7,069	(31)
Capital outlay	12,000	12,000	10,351	(1,649)
Debt service				
Principal retirement	3,000	3,000	2,935	(65)
Interest and fiscal charges	500	3,000	71	(2,929)
Total debt service	3,500	6,000	3,006	(2,994)
Transfers out	19,040	19,040	9,040	(10,000)
Total expenditures	310,767	333,867	257,282	(76,585)
Excess (deficiency) of revenues over expenditures	(48,912)	(72,012)	39,052	111,064
Fund balance - beginning of year	551,305	551,305	551,305	-
Fund balance - end of year	\$ 502,393	\$ 479,293	\$ 590,357	\$ 111,064

Village of Farwell
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended February 28, 2005

	Budgeted Amounts			Actual Over (Under) Final Budget
Revenues	Original	Final	Actual	
Taxes				
State revenue sharing	\$ 14,800	\$ 14,800	\$ 16,994	\$ 2,194
Interest income	47,800	47,800	78,347	30,547
Transfers in	10,000	10,000	4,143	(5,857)
	10,000	10,000	-	(10,000)
Total revenues	82,600	82,600	99,484	16,884
Expenditures				
Current				
Public works				
Capital outlays	46,514	59,808	56,915	(2,893)
Debt service	-	158,000	157,014	(986)
Principal retirement				
Interest and fiscal charges	10,000	10,000	8,047	(1,953)
Transfers out	1,000	1,000	196	(804)
	6,100	6,100	-	6,100
Total expenditures	63,614	234,908	222,172	(12,736)
Excess of revenues (deficiency) over expenditures	18,986	(152,308)	(122,688)	29,620
Fund balance - beginning of year	326,387	326,387	326,387	-
Fund balance - end of year	\$ 345,373	\$ 174,079	\$ 203,699	\$ 29,620

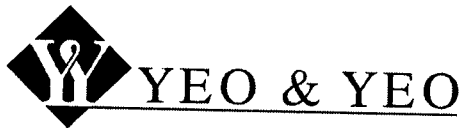
Village of Farwell
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended February 28, 2005

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 162,425	\$ 13,600	\$ 16,994	\$ 3,394
Federal grants	-	-	-	-
State revenue sharing	153,300	15,500	21,283	5,783
Interest income	19,000	2,000	1,315	(685)
Transfers in	32,200	22,200	-	(22,200)
Total revenues	366,925	53,300	39,592	(13,708)
Expenditures				
Current				
Public works	140,470	60,556	47,018	(13,538)
Capital outlay	12,000	-	-	-
Debt service	24,500	11,500	9,025	(2,475)
Principal retirement	3,000	1,500	220	(1,280)
Interest and fiscal charges				
Total expenditures	179,970	73,556	56,263	(17,293)
Excess of revenues (deficiency) over expenditures	186,955	(20,256)	(16,671)	3,585
Fund balance - beginning of year	59,694	59,694	59,694	-
Fund balance - end of year	\$ 246,649	\$ 39,438	\$ 43,023	\$ 3,585

Village of Farwell
Other Supplemental Information
Schedule of Indebtedness
February 28, 2005

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest Due July 1,	Interest Due January 1,	Total
Business-type activities	5.00%	2006	\$ 20,000	\$ 7,000	\$ 7,000	\$ 34,000
Water Fund 1979 Issue	5.00%	2007	20,000	6,500	6,500	33,000
Amount of issue - \$ 540,000	5.00%	2008	20,000	6,000	6,000	32,000
	5.00%	2009	20,000	5,500	5,500	31,000
	5.00%	2010	20,000	5,000	5,000	30,000
	5.00%	2011	20,000	4,500	4,500	29,000
	5.00%	2012	20,000	4,000	4,000	28,000
	5.00%	2013	20,000	3,500	3,500	27,000
	5.00%	2014	20,000	3,000	3,000	26,000
	5.00%	2015	20,000	2,500	2,500	25,000
	5.00%	2016	20,000	2,000	2,000	24,000
	5.00%	2017	20,000	1,500	1,500	23,000
	5.00%	2018	20,000	1,000	1,000	22,000
	5.00%	2019	20,000	500	500	21,000
			<u>\$ 280,000</u>	<u>\$ 52,500</u>	<u>\$ 52,500</u>	<u>\$ 385,000</u>

NOTE: Bonds maturing in the years from 2004 to 2019 are callable.



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May 20, 2005

Village Council
Village of Farwell
Clare County, Michigan

In planning and performing our audit of the financial statements of Village of Farwell, Michigan (Village) for the year ended February 28, 2005, we considered the Village's internal controls to plan our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on internal control structure.

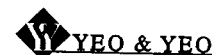
However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated May 20, 2005, on the financial statements of Village of Farwell, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Village personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Yeo & Yeo, P.C.

Midland, Michigan

May 20, 2005



RESPONSE TO PRIOR YEAR COMMENTS:

BANK RECONCILIATIONS

- 1) Cash accounts have not been reconciled during 2004.

Recommendation

Proper and timely reconciliation is a necessary step in maintaining up-to date and accurate accounting data. Monthly reconciliation will enable the Village to correct errors and discrepancies on a timely basis. Also it will properly and accurately state the account on the monthly financial statements, which are presented to the Council.

To further strengthen this process, bank reconciliations should be reviewed on a monthly basis by someone independent of the reconciliation process, such as board member.

This recommendation has been implemented.

- 2) Bank statements are directly received by the Treasure/Clerk, who is responsible for the reconciliation. Since this person is also involved in the purchasing, check preparation, cash bookkeeping process and has the authority to sign checks, this is not considered optimal. This lack of segregation of duties could create a potential for possible assets misappropriation.

Recommendation

We understand that the number of employees is very limited, but to better segregate duties we recommend that a board member receives unopened bank statements directly from the bank, review all cancelled checks and the monthly activity and then forward it for reconciliation.

This recommendation has been implemented. To further strengthen the controls in place we recommend that monthly bank reconciliations are reviewed by appropriate level of management and the approval is indicated in writing.

BANK DEPOSITS

- 1) Upon our review of the cash receipts journal and the bank statement for fiscal year 2004 we have noted unreasonable time delays between when revenue payments are received in the office and taken to the bank for deposits. Payments are collected at the office on a daily basis and in many instances large checks are received, such as from State of Michigan. The checking account used is an interest bearing account and by not making timely deposits the Village is not only losing interest revenue, but also exposing itself to possible theft.

Recommendation

Payments should be taken to the bank at minimum three times per week. If the Village receives large revenue checks they should be taken to the bank the same day. This way the Village will maximize it's interest earning potential and minimize the risk of losing the assets.

This recommendation has been implemented.

- 2) Currently the Village was using several deposit books, which complicates the bank reconciliation process.

Recommendation

We recommend for the Village to reduce the number of deposit books to one. The deposit book should mirror the cash receipt book and receipts should be recorded in numerical order to further simplify the bank reconciliation process.

This recommendation has been implemented.

COMPUTER BACK-UPS

Currently the Village data is backed up at least on a weekly basis, however the back-up disk are stored in the office in a desk drawer. In an event of fire or any other damage this data will be lost.

Recommendation

To prevent any data loss, computer back-ups should be stored in the fire-proof safe, which is located in the Village office. Once a week a back-up disk should be taken out of the building and stored offsite. Also the disks used for back-ups should be rotated anytime new back-up is made of Village data.

This recommendation has been implemented.

DISBURSEMENTS

- 1) Currently the Council approves a printout of a monthly check register at their monthly meeting, but they do not review the actual invoices.

Recommendation

Since the Treasurer/Clerk is involved in each step of the disbursement process we recommend the Council review original invoices when approving a monthly check register at their meetings. The invoices should be reviewed to assure the expenses are appropriate for the Village and that they are paid timely.

We also recommend that the Council consider approving monthly expenses before the checks are prepared and mailed to various vendors. This would strengthen the internal control process currently in place.

Currently a Council member reviews original invoices, however there is no formal evidence of the approval. We recommend the approval to be noted in writing on the original invoice. This recommendations has been implemented subsequent to our audit.

- 2) During our review of the fiscal year check register we have also noted that the majority of accounts payable checks are processed on the last day of the month. This creates an extremely large outstanding check list at the end of each month, since there is no time for these checks to clear the bank statement. The large outstanding check list makes the bank reconciliation process extremely tedious and time consuming.

Recommendation

We recommend establishing a check cutoff date each month (approximately 10 to 7 days before month end). At this time the Village would process the majority of the accounts payable checks. By doing so, this would allow checks enough time to clear that month's bank statement and considerably simplify the bank reconciliation process.

This recommendation has been implemented.

- 3) Currently the Village requires two signatures on each check. However we have noted during our disbursement procedures that the first signer pre-signs checks in advance. The reason for two signatures is that there are two individuals reviewing and approving payment of the expense. Pre-signing checks defeats the purpose of this internal control and creates potential for assets misappropriation.

Recommendation

Checks should be only signed at the time they are printed and ready to be mailed. When signing checks both signers should compare the checks to the supporting documentation for agreement of payee, amount and other pertinent information when signing the checks and that person's approval should also be indicated on the supporting documentation.

This recommendation has been implemented.

RECEIPT TESTING

During our testing of 25 receipts for the period March 1, 2003 through February 29, 2004 we have noted the following:

- 4 receipts had incorrect general ledger account number coding
- 2 receipts had inadequate supporting documentation
- 1 receipt had no deposit slip

Recommendation

When coding receipts general ledger account number accuracy is an important step to properly record revenue to accurately show different aspects of company operations.

Supporting documentation such as copy of the check, letters, deposit slips, etc. should be maintained and adequately so they are available during audit time and for any follow up questions in the future.

We noted no exceptions during current year audit.

SUNOCO CREDIT CARD USAGE

Currently there are three employees who are able to use this credit card. The monthly credit card statements are not reviewed for reasonableness and receipts for gas purchases are not required to be turned in to the Village.

Recommendation

Monthly Sunoco credit card statements should be reviewed for reasonableness by appropriate level of management. Also a procedure should be established, which will require the users of the card to turn in receipts for the gas purchases. The receipt should identify the individual purchasing the gas and the vehicle the gas was purchased for. This procedure would reduce the potential for possible credit card abuse.

New credit card statements are currently received, which identify the individual purchasing the gas and the vehicle the gas was purchased for. However these statements are not reviewed by the appropriate level of management for accuracy and reasonableness.

WINTER METER READINGS

Meters are not read during winter months. The usage is only estimated.

Recommendation

Since meters are located inside each residence or building we recommend that they be read even during winter months, especially for business customers. This will eliminate various adjustments, which are necessary to properly adjust the water/sewer billing system to reflect the actual usage over that time and also save significant amount of time, which is necessary to process these adjustments.

This recommendation has not been implemented.

PAYROLL

- 1) During our review of payroll transactions it was noted that the office personnel periodically pay themselves early and those days are included in the pay period they are getting paid for.

Recommendation

The Village has established payroll dates. These dates should be followed for each Village personnel and no exceptions are recommended. To pay employees for time not worked is discouraged and it is not considered an appropriate business practice.

This recommendation has been implemented.

- 2) Approval of Council members wages was not noted in the board minutes.

Recommendation

Items such as authorized wages, bonuses, wages increase, miscellaneous pay should be approved by the board and the approval should be noted in the board minutes.

This recommendation has been implemented.

CONFLICT OF INTEREST POLICY

During our review of Village procedures we have noted that the "Conflict of Interest Policy" has not been adopted.

Recommendation

We recommend that the Village adopts "Conflict of Interest Policy" that specifies that personnel in a position of trust are not related to each other; employees are prohibited from having business dealings with companies affiliated with, or acting as major customers or suppliers of, the governmental unit; transactions with officials of the government unit are adequately controlled and disclosed in the records; and such transactions only occur in the normal course of business and are legally authorized.

This recommendation has not been implemented.

JOB RESPONSIBILITIES CROSS-TRAINING

Currently there is nobody who performs or can perform the Treasurer/Clerk's job when that individual takes time off.

Recommendation

We recommend that the Village train other personnel the basic functions of the Treasurer/Clerk's job, so there is a back up when that individual is on vacation or takes time off. This will also serve as a good internal control, because there will be somebody else performing the job during that time so the opportunity for fraud would be reduced.

This recommendation has not been implemented.